



DEPARTMENT OF THE TREASURY

Strategies to Accelerate the Testing and Adoption of Pay  
for Success (PFS) Financing Models

Docket ID: TREAS-DO-2013-0006

AGENCY: Office of Domestic Finance, Department of the  
Treasury.

ACTION: Request for Information

SUMMARY: The President's FY 2014 budget included a request for a \$300 million one-time mandatory appropriation for a new Incentive Fund to help state and local governments implement PFS programs. In order to inform the Administration's development of this legislative initiative, this request for information (RFI) seeks information on options for financing models and the most promising programmatic areas<sup>1</sup> that could be served by the Incentive Fund. The input we receive will inform the Treasury Department and an interagency working group on PFS<sup>2</sup> about the best use of the authority requested in the

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<sup>1</sup> THE BUDGET FOR FISCAL YEAR 2014 -- See page 978 of the President's FY 2014 Budget Appendix (see <http://www.whitehouse.gov/omb/budget/Appendix>)

<sup>2</sup> See [www.payforsuccess.org](http://www.payforsuccess.org) for general information on PFS and social impact bonds.

President's FY 2014 Budget for the Incentive Fund<sup>3</sup> and on other state, local, and tribal performance-based funding mechanisms. In addition, responses may be used to identify opportunities for flexibility within existing authorities to support PFS and similar outcomes-based efforts.

DATES: Responses must be received by [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: Submit your comments through the Federal eRulemaking Portal or via U.S. mail, commercial delivery, or hand delivery. We will not accept comments by fax or by email. To ensure that we do not receive duplicate copies, please submit your comments only one time. In addition, please include the Docket ID and the term "PFS Incentive Fund RFI" at the top of your comments.

- Federal eRulemaking Portal: Go to [www.regulations.gov](http://www.regulations.gov) to submit your comments electronically. Information on using Regulations.gov, including instructions for accessing agency documents, submitting comments, and viewing the docket, is available on the site under a tab titled "Are you new to the site?"

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<sup>3</sup> THE BUDGET FOR FISCAL YEAR 2014 -- See page 978 of the President's FY 2014 Budget Appendix (see <http://www.whitehouse.gov/omb/budget/Appendix>).

- U.S. Mail, Commercial Delivery, or Hand Delivery:

If you mail or deliver your comments, address them to Cara Camacho, Attention: Pay for Success Incentive Fund RFI, U.S. Department of the Treasury, 1500 Pennsylvania Avenue NW, room 1325, Washington, DC 20220.

- Privacy Note: The Department's policy for comments received from members of the public (including comments submitted by mail, commercial delivery, or hand delivery) is to make these submissions available for public viewing in their entirety on the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov). Therefore, commenters should be careful to include in their comments only information that they wish to make publicly available on the Internet.

FOR FURTHER INFORMATION CONTACT: Cara Camacho by email: [cara.camacho@treasury.gov](mailto:cara.camacho@treasury.gov).

If you use a telecommunications device for the deaf (TDD) or a text telephone (TTY), call the Federal Relay Service (FRS), toll free, at 1-800-877-8339.

SUPPLEMENTARY INFORMATION:

Purpose

This request for information offers states, tribal governments, localities, community based and other non-profit organizations, private sector donors, researchers, and other interested individuals and entities the

opportunity to provide information on effective approaches for improving outcomes for social services and other program areas by employing financing mechanisms that pay for results.

## Background

### **What is Pay for Success?**

PFS is an innovative financing model that offers new ways for the government to partner with philanthropic and other lenders to provide capital to test promising practices and scale programs that work, significantly enhancing the return on taxpayer investments. PFS maximizes taxpayer dollars by paying for demonstrated results, and allows effective and evidence-based solutions to be identified and implemented.

### **Administration Activities to Date (FY 2011-2013)**

The President's 2012 and 2013 Budget Proposals sought authority from Congressional appropriators to use limited funding across select program areas in agencies including the Department of Education, the Department of Labor, the Department of Justice, the Social Security Administration and the Corporation for National and Community Service, and to extend the availability of funds for PFS beyond a

single fiscal year, to enable longer term projects to achieve the desired outcomes.

Under existing statutory authority, the Administration implemented several PFS initiatives in 2012: The Department of Justice announced three awards in September 2012 under the Second Chance Act,<sup>4</sup> and the Department of Labor announced the availability of up to \$20 million within the Workforce Innovation Fund for PFS<sup>5</sup> projects.

#### **Strengthening the Commitment in FY 2014**

The Administration is reinforcing its commitment to advancing the use of PFS in the federal government by proposing \$495 million in mandatory and discretionary programs in the President's FY 2014 Budget. This includes \$195 million in discretionary programming across three agencies (Education, Justice, and Labor).

#### **The Pay for Success Incentive Fund**

In addition, the President proposes to establish a \$300 million Incentive Fund, as a one-time mandatory

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4 See <http://www.justice.gov/opa/pr/2012/October/12-ag-1185.html>

5 See <http://www.dol.gov/opa/media/press/eta/ETA20121237.htm>

appropriation, to strengthen the achievement of program outcomes by accelerating adoption of PFS to improve program outcomes.

**What is the purpose of the new PFS Incentive Fund?**

Over the past three years, multiple states and local communities have embraced PFS because it offers the potential to bring significant new capital to scale programs that work. It does this by harnessing the savings that are generated by providing services that mitigate the need for more costly remedial interventions in the future. Successful outcomes may generate savings at multiple levels of government including local, state and federal. However, in many cases, state and local jurisdictions investigating potential Pay for Success projects find that the savings they capture are not sufficient to justify the investment and have difficulty accessing savings that occur at the state or federal level.

The first purpose of the Incentive Fund is to help states and local communities to partner with the federal government to realize savings when PFS projects achieve the agreed-upon outcomes. These early projects will provide substantive evidence of these savings and inform future policy decisions to enable sustainable investment.

Lenders and investors are becoming interested in financing PFS programs, but this market is still new. If this market develops, private financing may expand the potential for PFS and the positive outcomes it generates.

The second purpose of the Incentive Fund is to better allocate program performance and other risk to catalyze testing of PFS models where there is a federal financial interest.

The Fund would be managed by the Department of the Treasury in consultation with a Federal Interagency Council on PFS. To support the cross-cutting nature of PFS, the Incentive Fund would help state, local, and tribal governments advance projects that achieve savings across programs and across levels of government and provide limited credit enhancement to build investor confidence in this emerging model. In some cases, promising PFS projects are likely to result in savings in other governmental programs or activities. Projects may also have savings and cost implications that cut across levels of government, e.g., for a program with both federal and state funds the fund might support projects that yield savings at the federal level as well as the state and local level.

A Federal Interagency Council on PFS would advise Treasury on specific programmatic and policy matters related to the use of the fund. The Council also would:

1. Coordinate Federal Pay for Success efforts by:

- Aligning evidence standards used to determine and measure PFS outcomes across federal agencies and programs;
- Sharing best practices for effectively coordinating PFS programs at the federal, state, and local levels.

2. Understand and respond to needs in the field by:

- Soliciting ideas from a broad array of stakeholders on strategies for accelerating PFS adoption and learning, including facilitation of comprehensive, multi-systems approaches and leveraging existing resources;
- Disseminating tools for defining, measuring, and evaluating outcomes in PFS projects, especially where cost and savings implications cut across multiple funding streams.

3. Foster partnerships across stakeholders by:

- Assessing the potential for the development of public-private partnerships to support promising pilot projects;



- Working with states and localities to align authorities necessary to support implementation of PFS projects and achieve better outcomes.

### Request for Information

Through this RFI, Treasury and the interagency working group on PFS are soliciting ideas and information from a broad array of stakeholders on the Incentive Fund. We are also seeking input on how the Incentive Fund could be linked to existing federal, state and local resources in more coordinated and comprehensive ways to leverage private and philanthropic investment. Responses to this RFI will inform work on the design, logistics, and implementation of the Incentive Fund.

This RFI is for information and planning purposes only and should not be construed as a solicitation or as an obligation on the part of the Treasury or other participating federal agencies.

In general, we are interested in receiving information on current challenges in implementing PFS, and essential elements for development of a robust PFS market. Additionally, we are seeking information on the potential impact of the Incentive Fund on market development and the potential advantages to taxpayers.

We also ask respondents to address the following questions where possible, in the context of the discussion in this document. You do not need to address every question and should focus on those where you have relevant expertise. You may also address the questions in the context of a detailed pilot proposal outlining how a state, local, or tribal government could use the Incentive Fund to implement PFS projects that achieve better outcomes across a variety of programs and levels of government.

To the extent possible, please clearly indicate which question(s) you address in your response.

Key Questions:

1. Instead of focusing on particular programs, the budget language proposing the Fund is broad in scope. What agencies and/or program areas are best suited for the Fund and why? What level of evidence exists in these areas about interventions that work? What is the threshold of evidence that a program should have in order to merit consideration for a PFS approach? What other factors should be considered in setting resource priorities for the Fund?
2. The budget proposal encourages maximizing the leverage of Federal funds by engaging intermediaries, including state, local and tribal governments. What other kinds of

- groups should be considered as intermediaries? Are there other organizational constructs that should be considered? The ability to demonstrate whether a PFS intervention produces the desired results is the backbone of the model. How can the Federal government encourage the adoption of low-cost yet rigorous outcome measures? What are some of the barriers to using administrative data in a PFS scenario, and how might they be addressed?
3. Outcome payments and financing support (e.g., credit enhancement, loans or advances) are two forms of assistance meant to complement one another in stimulating PFS approaches. What criteria should be used to decide how to split the Fund between these two forms of assistance? Should a certain proportion of the fund go toward outcome payments versus financing support, such as 50/50, 30/70, etc.?
4. Is there an optimal structure for both the timing and tiering of outcome payments? For example, should the projects allow for some degree of "progress payments" based upon achievement of early outcomes? Should the projects allow for "bonus payments" for extraordinary performance? What are the trade-offs of adapting different structures to different projects versus supporting a standardized approach?

5. Among the possible forms of financing support, would credit enhancements, loans or advances be most helpful? What role would financing support play in the overall structure of a PFS structure?
6. Please suggest one or more examples of promising PFS projects or programs. For each example, what are its characteristics or features that make it a good candidate for PFS? Who would be the key partners and what would be their roles? How would the activity be funded? How would risks be shared and interests aligned among the partners? What might be appropriate outcomes and metrics? Over what timeframe would outcomes be determined?
7. What process would be most helpful to states, local governments and tribes to apply for either outcome payments or financing supports? What do states and localities need in order to be ready to participate in a competitive process and resulting projects?
8. The ability to ensure that outcome payments are available for successful projects, either directly or via credit enhancement has been a significant risk that the Fund would help to address. Are there other functions that the Fund should serve in order to accelerate adoption and testing of the PFS model?

9. Please address any other factors you believe important for consideration in development of the Fund. You may also provide examples to illustrate how the Fund could be used to accelerate or enhance implementation of PFS.

Guidance for Submitting Documents

We ask that each respondent include the name and address of his or her institution or affiliation, and the name, title, mailing and e-mail addresses, and telephone number of a contact person for his or her institution or affiliation, if any. Dated:

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Donet Graves,  
Deputy Assistant Secretary for  
Small Business, Community  
Development and Housing Policy

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